GCR GLOBAL CREDIT RATING CO.
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Dangote Cement Plc N300bn Debt Issuance Programme (N100bn Series 1 Bonds)

Nigeria Corporate Bond Analysis – New Issuance Report **May 2020**

Security class	Rating scale	Rating	Rating outlook	Expiry date
N100bn Series 1 Senior Unsecured Bonds	National	AA+$_{(NG)}$	Stable	November 2020

Key Transaction counterparties:

Issuer: Dangote Cement Plc ("Dangote" or "the Group")

Issuer's long term credit rating: AA+$_{(NG)}$

Lead Issuing House: Stanbic IBTC Capital Limited

Joint Issuing Houses: Absa Capital Markets Nigeria Ltd., Standard Chartered Capital and Advisory Nigeria Ltd., Coronation Merchant Bank Ltd., Future View Financial Services Ltd.., Vetiva Capital Management Ltd, FBNQuest Merchant Ltd., FCMB Capital Markets Ltd., United Capital Plc, Rand Merchant Bank Nigeria Ltd., Ecobank Development Company Ltd., Quantum Zenith Capital & Investment Ltd.

Joint Trustees: ARM Trustees Ltd., FBNQuest Trustees Ltd., Coronation Trustees Ltd., Quantum Zenith Trustees & Investments Ltd.

Solicitors to the Issuer: Banwo & Ighodalo

Solicitor to the Transaction: Olaniwun Ajayi LP

Key Transaction Documentation: Shelf Prospectus, Series 1 Trust Deed, Series 1 Pricing Supplement.

Summary of Transaction:

Asset class	Senior unsecured
Programme limit	N300bn
Series 1 Bond size	N100bn
Tenor	5 years
Maturity Date	2025
Interest rate	12.5%
Interest basis	Fixed, payable semi-annually
Principal redemption basis	Bullet repayment upon maturity
Negative pledge	Yes

Related methodologies/research:

Global Master Criteria for rating Corporate entities, updated February 2018;
Dangote Cement Plc Issuer rating reports, 2016-2019
Glossary of terms/ratios, February 2018

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Transaction summary

Dangote Cement Plc registered a N300bn Debt Issuance Programme ("the Programme" or "DIP") with Securities and Exchange Commission ("SEC") in October 2017. The DIP is backed by a resolution of the Board of Directors ("the Board") of the Issuer. An initial N100bn is expected to be raised in Series 1 Bond Issuance under the Programme. The net proceeds shall be utilised for capacity expansion project, export terminal project and refinancing of shareholder loan. The Series 1 Bonds shall have a legal maturity tenor of five years with expected maturity in 2025. The Bonds shall constitute direct, unconditional, senior, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

GCR has accorded a rating of AA+$_{(NG)}$ to the Series 1 Bonds, and not the Programme. The rating relates to the ultimate payment of principal and coupon (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity).

Summary rating rationale

- The Issuer is Africa's leading integrated cement manufacturer, with a combined installed capacity of 45.6 million tonnes per annum across ten countries. Nevertheless, its geographical spread is counterbalanced by single market concentration, with Nigeria accounting for 88% of group EBITDA and 64% of capacity at FY19. GCR affirmed the Issuer's long term rating at 'AA+$_{(NG)}$ with a Stable outlook in January 2020. The rating reflects Dangote's substantial production capacity, its extensive distribution network, significant scale economies and position as the largest corporate on The Nigerian Stock Exchange.
- The Programme Trust Deed does not offer Bondholders any security over assets but does feature a negative pledge and other covenants to protect the interest of Bondholders.
- As the Series 1 Bonds are direct, unconditional, senior, unsecured and unsubordinated obligations of the Issuer, the Bonds will bear the same rating as the Issuer, and any change in the rating assigned to the Issuer will directly affect the Bond rating.
- Dangote has demonstrated robust earnings generating capacity over the years, supported by its low fixed cost model, scale economies and clinker sufficiency in Nigeria. GCR expects some margin pressure to persist in Nigeria in particular. The attainment of medium-term targets will also depend on improved economic conditions and improved earnings contribution from other markets.
- The Issuer reports robust cash generation which peaked at N392.3bn in FY19 and supported operating cash flow coverage of total debt of 108%, despite ongoing expansion related working capital absorptions
- Gearing metrics remain moderate at FY19, with net gearing reported at 27%, and net debt to EBITDA at 62%. However, this could escalate following successful issuance of the proposed Series 1 Bonds.

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N300bn Debt Issuance Programme

Dangote Cement Plc registered a N300bn Debt Issuance Programme with Securities and Exchange Commission in October 2017. The DIP is backed by a resolution of the Board of Directors ("the Board") of the Issuer. The Issuer is in the processing of raising an initial N100bn in Series 1 Bond Issuance under the Programme.

N100bn Series 1 Bonds

The Series 1 Bonds shall be direct, unconditional, senior, unsubordinated and unsecured obligations of the Issuer, ranking *pari passu* and without any preference among themselves. The Bonds shall bear a fixed interest rate of 12.5%, accruing from the issue date and payable semi-annually in arrears. The principal amount shall be repaid in full on the maturity date.

Other salient features of the Bonds are as follows:

- ***Taxation***: The Federal Government of Nigeria issued a Tax Waiver on Bonds in March 2010 exempting certain taxes on all categories of bonds (including corporate bonds), up till January 2, 2022. After this date, the Issuer may be required by law to withhold tax on coupon payments to Bondholders.
- The Bonds bear a negative pledge
- An application will be made to list the Bonds on the FMDQ Securities Exchange Plc's platform and/or The Nigerian Stock Exchange

Utilisation of proceeds

The net proceeds would be utilised to refinance DCP's shareholder loan, finance export terminal project and expansion project.

Issuer profile

Dangote is Africa's leading integrated cement manufacturer, with 13 plants in 10 countries and a combined installed capacity of 45.6mtpa. Nigeria remains the Group's dominant area of operations, with a combined production capacity of 29.3mtpa (64% of total), spread across three locations, including Ibese (12mtpa), Obajana (1.3mtpa) and Gboko (4mtpa). Dangote also has 15,000 retail outlets, 48 depots and 9,200 trucks (fo cement distribution). Dangote serves three export market from Nigeria. The Group has 48 subsidiaries (FY18: 44), of which 39 (FY18: 37) are directly owned. Dangote is a subsidiary of Dangote Industries Limited, a diversified multinational corporate with operations spanning building materials, packaging, logistics, real estate, fertilizer, oil and gas as well as food and beverages, inter alia. Dangote was listed on The Nigerian Stock Exchange in October 2010 and remains the most valuable public company, accounting for around 30% of NSE capitalisation as at December 2019. Dangote Industries Limited and Mrs. Dangote control 85.1% and 0.16% stake respectively in Dangote, while the remaining shares are held by the investing public.

Dangote has reported consistent growth in revenue, and has remained profitable over the years due to its low fixed cost model, scale economies and clinker sufficiency in Nigeria. However, the Group implemented significant price discounting during FY19 to sustain its domestic market share, amid increased competition. Thus, EBITDA margin narrowed to 44.2% at FY19 (FY18: 47.9%) from 48.1% in FY17, albeit sound. GCR expects some margin pressure to persist over the rating horizon, amidst heightened competitive pressure in Nigeria in particular. The attainment of medium-term targets will also depend on improved economic conditions and improved earnings contribution the rest of Africa.

Loan from Dangote Industries Limited and related party loans have historically accounted for around 50% of total debt, reflecting strong shareholder support. Despite the substantial increase in debt to N367.9bn at FY19, gearing metrics are moderate with net gearing reported at 27% (FY18: 18%) and net debt to EBITDA at 62% (FY18: 42%). However, this could escalate following successful Issuance of the proposed Series 1 Bonds.

GCR affirmed the Issuer's national scale long term rating of AA+$_{(NG)}$ and short term rating of A1+$_{(NG)}$ in January 2020. Please refer to GCR's corporate rating reports on Dangote Cement Plc, for detailed commentary and credit analysis.

Other key transaction parties

Issuing Houses

The Issuing House function is to be jointly rendered by Stanbic IBTC Capital Ltd., (as lead Issuing House), Absa Capital Markets Nigeria Ltd., Standard Chartered Capital and Advisory Nigeria Ltd., Coronation Merchant Bank Ltd., Future View Financial Services Ltd.., Vetiva Capital Management Ltd, FBNQuest Merchant Ltd., FCMB Capital Markets Ltd., United Capital Plc, Rand Merchant Bank Nigeria Ltd., Ecobank Development Company Ltd., Quantum Zenith Capital & Investment Ltd.

Trustees

ARM Trustees Limited, FBNQuest Trustees Limited, Coronation Trustees Limited, and Quantum Zenith Trustees & Investments Limited have been appointed to jointly monitor compliance with the various clauses and covenants of the Trust Deed. The Trustees' performance track record and experience in the local market are considered satisfactory. A brief overview of the Trustees is discussed hereafter.

FBNQuest Trustees Limited has over 28 years of experience, with Trustee services rendered to various loan syndicates and consortia, involving top rated banks in Nigeria, Trusteeship of Public Trusts such as Unit Trust Schemes, Equity Funds and Government Bonds.

Coronation Nominees and Trustee Limited acts as trustees for a variety of transactions, both locally and offshore, developing innovative, premium trust products tailored to meet a range of market and transactional needs. The company renders various trust services, including estate planning services, public trust services and corporate trust services.

ARM Trustees Limited ("ARM") is a wholly-owned subsidiary of Asset & Resource Management Company Limited, an asset management firm founded in 1994. ARM Trustees has over 20 years' experience, offering private trust, commercial trust, company secretarial, corporate restructuring and advisory services.

Quantum Zenith Trustees was licensed in 2004 by SEC to provide trustee services to private individuals, corporate organisations and governments.

Payment Account

The transaction incorporates a payment account which shall be establish by the Issuer with the Account Bank, on or about the Issue Date of the Series 1 Bonds, in the name and under the control of the Bond Trustees, on behalf of the Bondholders. The Trustees shall keep and maintain the Payment Account for as long as the Series 1 Bonds remain outstanding. The Payment Account is to be fully funded two (2) business days before each Payment Date such that sufficient funds will be available to the Trustees to settle the bond obligation on due dates.

Covenants and other security features

The Programme Trust Deed ("PTD") contains various covenants binding the Issuer to repay the Bonds, pay interest and also comply with the provisions of the relevant Trust Deeds and all applicable laws. The Trustees will hold the payment obligations and other covenants of the Issuer in Trust for the benefit of the Series 1 Bondholders, and will perform the duties contained in the respective Trust Deeds. Key covenants set by the Issuer include the following:

- ***Covenant of compliance:*** The Issuer undertakes to comply with, perform, and observe all the provisions of the relevant Trust Deed. The Conditions shall be binding on the Issuer, the Trustees and the Bondholders. The Trustees shall hold the benefit of this covenant upon trust for themselves and the Bondholders

- ***Negative pledge:*** for as long as any of the Bonds remain outstanding, the Issuer or any of its subsidiaries shall not secure any other indebtedness represented by bonds, notes or any other publicly issued debt securities which are, or are capable of being, traded or listed on any stock exchange or over-the-counter or similar securities market, without securing the Series 1 Bonds equally and rateably with such indebtedness.

The PTD also contains various representations and warranties from the Issuer to protect the interest of the Bondholders.

Events of default

Per Clause 12 of the PTD, these include the following events, *inter alia*:

- *Payment Default*: if the Issuer does not pay any amount in respect of the Bonds within ten 10 business days of due date.
- *Breach of other Obligations*: The Issuer does not comply with its other obligations under or in respect of the Bonds, and the non-compliance is not remedied within 30 days after written notice requiring such default to be remedied has been delivered to the Issuer
- *Cross default:* If any financial indebtedness exceeding N50bn is not paid by due date or within an applicable grace period. (Any amounts being contested in good faith will not form part of the value);
- Enforcement proceedings against any substantial part of the property, assets or revenues of the Issuer, and such action is not discharged within sixty (60) days;
- Insolvency event in respect of the Issuer;
- Cessation of business;
- Material adverse event;
- If any of the bonds, the trust deeds is or becomes wholly or partly void, voidable or unenforceable.

Following the occurrence of an event of default and is continuing, a Bond Acceleration Notice[1] may be given to the Issuer, stating that all amounts due to Bondholders will become immediately payable. The Trustees are authorised to take reasonable steps to effect payment.

Rating considerations for Series 1 Bonds

GCR has considered those factors impacting the general creditworthiness of Dangote Cement Plc, in performing its analysis. Being senior unsecured debt, the Bonds bear the same probability of default as the Issuer and would reflect similar recovery prospects to senior unsecured creditors in the event of a default. As such, the Series 1 Bonds will garner the same long term rating as that accorded to the Issuer. Accordingly, GCR has accorded a national scale credit rating of AA+$_{(NG)}$ to the Series 1 Bonds in line with the long term senior unsecured corporate credit rating of Dangote. Accordingly, any change in the Issuer rating would impact the Bond rating.

<u>Meaning of the Rating of the Series 1 Bonds</u>

The rating accorded to the Series 1 Bonds is a public national scale rating. A national scale credit rating is an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be accorded to financial commitments issued or guaranteed by the relevant sovereign state. GCR has reviewed the executed transaction documentation.

The *public* rating accorded to the Bonds relates to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity). The rating excludes an assessment of the Issuer's ability to pay any (early repayment) penalties.

Should the rating of the Issuer change, the rating of the Series 1 Bonds will also change, but not necessarily in the same quantum.

The suffix code identifies to which country the rating relates; 'NG' means Federal Republic of Nigeria. A Rating outlook indicates the potential direction of a rating over the medium term, typically a one or two year period.

[1] If requested by majority of bondholders.

The final rating will be monitored, and thereafter GCR will perform regular surveillance on the transaction. Surveillance reports will be made available to subscribers to GCR's information services.

Dangote Cement Plc

(Naira in millions except as noted)

Year end: 31 December						
Statement of comprehensive income	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Turnover	391,639	491,725	615,103	805,582	901,213	891,671
EBITDA	**222,720**	**261,931**	**256,778**	**387,360**	**431,551**	**394,519**
Depreciation	(36,266)	(54,626)	(74,750)	(83,939)	(96,203)	(95,463)
Operating income	**186,454**	**207,305**	**182,028**	**303,421**	**335,348**	**299,056**
Net finance charge	(14,902)	(31,778)	(42,719)	(43,575)	(30,343)	(36,219)
Forex and reserving	12,873	12,250	41,155	26,790	(8,112)	(13,481)
Share of net income/(loss) from associate	0	0	0	2,167	563	649
Other operating income/(expense)	264	517	465	787	3,350	474
Net Profit Before Tax	**184,689**	**188,294**	**180,929**	**289,590**	**300,806**	**250,479**
Taxation charge	(25,188)	(6,971)	(38,071)	(85,342)	89,519	(49,958)
Net Profit After Tax	**159,501**	**181,323**	**142,858.0**	**204,248.0**	**390,325**	**200,521**
Statement of cash flows						
Cash generated by operations	**241,933**	**275,395**	**243,865**	**379,701**	**424,416**	**392,258**
Utilised to increase working capital	(26,359)	26,356	35,857	(31,113)	(37,905)	38,458
Net interest paid	(13,461)	(23,308)	(36,367)	(39,222)	(35,808)	(28,382)
Taxation paid	(226)	(2,234)	(1,128)	(3,213)	(11,163)	(4,601)
Cash flow from operations	**201,887**	**276,209**	**242,227**	**306,153**	**339,540**	**397,733**
Maintenance capex‡	(36,266)	(54,626)	(74,750)	(83,939)	(96,203)	(95,463)
Discretionary cash flow from operations	**165,621**	**221,583**	**167,477**	**222,214**	**243,337**	**302,270**
Dividends paid	(119,284)	(102,243)	(136,324)	(144,844)	(178,925)	(272,785)
Retained cash flow	**46,337**	**119,340**	**31,153**	**77,370**	**64,412**	**29,485**
Net expansionary capex	(158,816)	(102,466)	(44,091)	(24,014)	(35,638)	(81,799)
Investments and other	(1,596)	(298)	(745)	(1,639)	0	0
Proceeds on sale of assets/investments	1,487	0	0	0	0	0
Shares issued	0	0	0	0	0	0
Cash movement: (increase)/decrease	53,747	(25,062)	(71,110)	(54,648)	2,335	35,849
Borrowings: increase/(decrease)	58,842	8,486	84,176	2,931	(31,109)	16,465
Net increase/(decrease) in debt	**112,588**	**(16,576)**	**13,066**	**(51,717)**	**(28,774)**	**52,314**
Statement of financial position						
Ordinary shareholders interest	584,025	648,345	734,308	762,375	969,158	882,977
Outside shareholders interest	4,161	(6,235)	(12,925)	12,630	11,486	11,297
Pref. shares and convertible debentures	0	0	0	0	0	0
Total shareholders' interest	**588,186**	**642,110**	**721,383**	**775,005**	**980,644**	**894,274**
Current debt	117,263	47,275	220,300	144,783	220,128	260,631
Non-current debt	131,942	208,329	152,475	242,894	125,725	107,279
Total interest-bearing debt	**249,205**	**255,604**	**372,775**	**387,677**	**345,853**	**367,910**
Interest-free liabilities	143,630	210,619	430,801	496,846	361,997	475,504
Total liabilities	**981,021**	**1,108,333**	**1,524,959**	**1,659,528**	**1,688,494**	**1,737,688**
Property, Plant and Equipment	827,285	926,306	1,168,907	1,208,241	1,208,247	1,269,938
Investments and other non-current assets	16,633	16,047	52,888	40,988	51,409	61,014
Cash and cash equivalent	20,593	40,792	115,693	168,387	166,896	123,903
Other current assets	116,510	125,188	187,471	241,912	261,942	282,833
Total assets	**981,021**	**1,108,333**	**1,524,959**	**1,659,528**	**1,688,494**	**1,737,688**
Ratios						
Cash flow:						
Operating cash flow : total debt (%)	81.0	108.1	65.0	79.0	98.2	108.1
Discretionary cash flow : net debt (%)	72.4	103.2	65.1	101.3	136.0	123.9
Profitability:						
Turnover growth (%)	1.4	25.6	25.1	31.0	11.9	10.7
Gross profit margin (%)	63.5	59.0	47.4	56.4	57.5	57.4
EBITDA : revenues (%)	56.9	53.3	41.7	48.1	47.9	44.2
Operating profit margin (%)	47.6	42.2	29.6	37.7	37.2	33.5
EBITDA : average total assets (%)	25.7	25.8	20.7	26.7	28.6	25.2
Return on equity (%)	28.3	29.4	20.7	27.3	45.1	21.7
Coverage:						
Operating income : gross interest (x)	10.3	6.2	4.0	5.8	8.0	6.8
Operating income : net interest (x)	12.5	6.5	4.3	7.0	11.1	8.3
Activity and liquidity:						
Trading assets turnover (x)	33.6	35.5	39.6	33.6	26.4	17.8
Days receivable outstanding (days)	5.1	3.9	6.6	7.3	6.4	5.8
Current ratio (:1)	0.6	0.8	0.6	0.8	0.9	0.8
Capitalisation:						
Net debt : equity (%)	38.9	33.5	35.6	28.3	18.2	27.3
Total debt : equity (%)	42.4	39.8	51.7	50.0	35.3	41.1
Net debt : EBITDA (%)	102.6	82.0	100.1	56.6	41.5	61.8
Total debt : EBITDA (%)	111.9	97.6	145.2	100.1	80.1	93.3

‡Depreciation used as a proxy for maintenance capex expenditure

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the Bond rating expires in November 2020.

Dangote Cement Plc and the Issuing Houses participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The Bond rating has been disclosed to Issuer.

The information received from the Issuer, the lead Issuing House and other reliable third parties to accord the Bond rating included: Executed Shelf Prospectus, Executed Programme Trust Deed, Executed Series 1 Pricing Supplements, as well as Executed Series 1 Trust Deeds.

The rating above was solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the rating.